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SECURIAN™

February 24, 2011

Ms. Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: Revisions to MDIA Final Interim Rule issued on December 22, 2010– ARM and Fixed-Rate Mortgage Revisions to Reg Z
Docket No. R-1366

Dear Ms. Johnson:

This letter is submitted in response to the Final Interim rule clarifying certain provisions of the final interim rule published in the Federal Register on September 24, 2010 (effective January 30, 2011).

Securian Financial Group is a leading provider of lending and deposit forms in the credit union industry. As such, we provide closed-end and open-end consumer and home equity loan forms, credit card forms, and deposit forms to hundreds of credit unions nationwide. It is with this background and knowledge that this letter is submitted. We appreciate the opportunity to provide this information.

We provide comments with regard to the following:

1. We seek clarification of the requirement to disclose the first adjustment in 5/1 ARMs.
2. We seek clarification regarding the introductory rate disclosure box when the increased rate is not the "fully indexed rate" as that term is defined in the rules, but is rather the rate in effect at the time the intro period ends (e.g., "Index + Margin").
3. We ask that premiums and fees for optional credit protection products be allowed to be included in the tabular disclosures.

1. FIRST ADJUSTMENT REGARDING 5/1 ARMS

We appreciate the Board's attempt in clarifying the disclosure requirements for 5/1 ARMs. However, we still find the rule to be unnecessarily confusing to both creditors and consumers.

The clarified rule states that the "maximum during first five years" is the maximum during the first five years after the first payment is due. The Board states that its intent is for creditors to disclose the first rate adjustment. However, the column headings make this confusing. We explain as follows.

Typically, the first rate adjustment occurs with the 61st payment. Technically, the 61st payment does fall within the first 5 years (even though five years = 60 months). This, however, is not intuitive to the average consumer or loan officer, and is confusing. For example, in a 5/1 ARM whose first payment is October 1, 2011, the 61st payment, at which the rate changes, would be October 1, 2016. Suppose a step-rate loan in which the first five years is fixed at 4.55%, and then increases to 6.25% for the next five years. The first two columns in the Model Form would show:

	INTRODUCTORY Rate & Monthly Payment (for first five years)	**MAXIMUM during FIRST FIVE YEARS 10/01/16**	**MAXIMUM EVER** (as early as)
Interest Rate	4.55%	6.25%	[__]%
Principal + Interest Payment	$300	$450	$_____
[Estimated Taxes + Insurance (escrow)] • [Includes [Private] Mortgage Insurance]	$0	$0	[$_____]
TOTAL ESTIMATED MONTHLY PAYMENT	**$300**	**$450**	**$_____**

The first two columns, read together, is confusing. The first purports to tell the consumer that the rate (and payment) will not change for the first 5 years and will be fixed at 4.55%. But the second column goes on to state that the maximum during those five years could be as high at 6.25% and is really the beginning of what is commonly thought of as "the next five years" or the "next payment phase". It does not make it clear that the month in which the rate increases to 6.25% is the 61st payment. Moreover, it does not make it clear that the 6.25% rate will be in effect for the next five years.

The disclosure also does not fare very well for 3/1 ARMs, 7/1 ARMs, or ARMs whose first rate increase is not known, because it is based on the Index + Margin in effect at the time the adjustment is scheduled to occur.

We would suggest instead that the 2nd column simply be labeled, "First Adjustment" and include the period for which the new rate will apply. This is much more straight-forward and simple for consumers and loan officers to understand. It would look like this:

	INTRODUCTORY Rate & Monthly Payment (for first five years)	**FIRST ADJUSTMENT:** (for the period 10/01/16 – 09/01/21)	**MAXIMUM EVER** (as early as)
Interest Rate	4.55%	6.25%	[__]%
Principal + Interest Payment	$300	$450	$_____
[Estimated Taxes + Insurance (escrow)] • [Includes [Private] Mortgage Insurance]	$0	$0	[$_____]
TOTAL ESTIMATED MONTHLY PAYMENT	**$300**	**$450**	**$_____**

This more clearly demonstrates exactly what will happen with the rate and payments.

This format would also lend itself well to all loan types, such as 3/1 and 7/1 ARMs. To require a "Maximum During First 5 Years" for 3/1 and 7/1 ARMs is arbitrary and not at all helpful to consumers. For example, for a 7/1 ARM, the 5-year column is redundant, and therefore unhelpful, because the same numbers will appear in the first and second columns, because of course that is the case since the rate is fixed for the first seven years.

For a 3/1 ARM, the 5 Year Max column does not provide the most important information – namely, what will the rate and payment do at the end of the 3rd year?

Using a "First Adjustment" column rather than Max 5 Years column would benefit the consumer (and the creditor) in all of the above situations.

Use of the Max 5 Years Column is also not helpful in the majority of cases, where the ARM is based on the Index + Margin, and the rate depends on the Index in effect at the time the rate is scheduled to adjust. This rate cannot be known at the time the loan is closed, because there is no way of knowing what the Index rate will be sometime in the future. Presumably, in that case it would be helpful to the consumer to know what the maximum rate could be at that time. In that case, the First Adjustment column would also be useful. But it should also be explained that the rate at the first adjustment is unknown at loan close because it's based on the Index in effect at that time, and that the rate being disclosed is therefore the maximum rate that could apply. This can be done with a simple statement.

For example, suppose a loan whose first payment is October 1, 2011; that the rate will vary based on Prime + Margin; and can change quarterly if the Index changes:

	INTRODUCTORY Rate & Monthly Payment (for first quarter)	**FIRST ADJUSTMENT:** as early as **01/01/12** can be as high as*:	**MAXIMUM EVER** (as early as 01/01/12)
Interest Rate	4.55%	18%	18%
Principal + Interest Payment	$300	$1350	$1350
[Estimated Taxes + Insurance (escrow)] • [Includes [Private] Mortgage Insurance]	$0	$0	$0
TOTAL ESTIMATED MONTHLY PAYMENT	**$300**	**$1350**	**$1350**

***Important Rate Information:** The rate you receive will vary based on the Index in effect at the time of the adjustment. The rate disclosed reflects the maximum possible rate under the loan, because the Index in effect at the time of adjustment is unknown at this time. The table above shows the soonest that the rate adjustment may take place, and the highest rate that may be in effect at that time.

This conveys the best knowledge available at the time the loan is closed, and explains what could occur if the rate increases significantly at the time the rate adjusts.

Loans with rate changes and payment changes. If a loan first has a payment adjustment without a rate adjustment (and then later the rate adjusts), we would suggest adding another column:

	INTRODUCTORY Rate & Monthly Payment (for first five years)	**FIRST ~~[RATE][PAYMENT]~~ ADJUSTMENT: 10/01/16**	**FIRST ~~[RATE][PAYMENT]~~ ADJUSTMENT: 03/01/17**	**MAXIMUM EVER** (as early as)
Interest Rate	4.55%	4.55%	6.25%	[__]%
Principal + Interest Payment	$300	$450	$600	$_____
[Estimated Taxes + Insurance (escrow)] [Includes [Private] Mortgage Insurance]	$0	$0	$0	[$_____]
TOTAL ESTIMATED MONTHLY PAYMENT	**$300**	**$450**	**$600**	**$_____**

Again, this clearly explains how and when the consumer's rate and payments may change.

2. INTRODUCTORY RATE BOX

We also seek clarification regarding the Introductory Rate box disclosure regarding discounted initial rates.

Under the rules, the following disclosure is required if the loan has a discounted initial rate:

> **[Introductory Rate Notice:** You have a discounted introductory rate of _____% that ends after *(period)*. In the *(period in sequence)*, even if market rates do not change, this rate will increase to ___%.]

According to 226.18(s)(2)(iii), the fully-indexed rate must be disclosed. "Fully Indexed rate" is defined as, "the interest rate calculated using the index value and margin at the time of consummation."

It appears from this language, and particularly the model disclosure, that the Board anticipates the discounted rate increasing to the rate in effect at consummation when the discounted period ends. This, however, is not usually the case. Normally, the rate will increase to the margin + index in effect at the time the discounted period ends. Or, in the case of fixed-rate mortgages, it would increase to a set rate that is not necessarily the standard rate that was in effect at the time of consummation.

We seek clarification that the rules do not mandate that the creditor change the rate to the rate in effect at consummation.

Assuming this is the case, we suggest that the following disclosure be used as the model language for plans which increase the rate to the then-current Index + margin at the end of the discount period:

> **[Introductory Rate Notice:** *Instead of the standard rate of ___%,* you have a discounted introductory rate of _____% that ends after *(period)*. In the *(period in sequence)*, even if market rates do not change, this rate will change to *a rate equal to the margin + index at the time the discounted period ends, and will vary thereafter.*]

This accurately reflects the discount's effect on the rate, and provides the best information available at the time that the loan is closed.

We also suggest the following disclosure for fixed-rate plans which increase to a set rate at the end of the discount period:

> **[Introductory Rate Notice:** *Instead of the standard rate of ___%,* you have a discounted introductory rate of _____% that ends after *(period)*. In the *(period in sequence)*, even if market rates do not change, this rate will change to *___%*]

This is more accurate than the language required under the current rules.

We also request that the caption of this disclosure be revised to read, "Discounted Rate Notice". That is a more accurate description and differentiates it from the standard Intro Rate disclosed in the Table.

CHARGES FOR OPTIONAL CREDIT PROTECTION PRODUCTS

We ask that creditors be given the option of including in the tabular disclosure a monthly payment amount that includes premiums and fees for optional credit insurance and debt cancellation & suspension products. We explain s follows.

As the rule is currently written, only principal and interest (and some escrow items, if applicable) may be included in the payment disclosures in the table. That, however, is not an accurate payment amount if the consumer chooses to purchase an optional credit protection product. The rules force creditors to make a second, separate disclosure of the monthly payment that includes optional credit protection. This is confusing to consumers and unnecessarily burdensome to creditors.

We suggest that adding one additional row to the bottom of the table would be a straight-forward way of making a more accurate payment disclosure, while maintaining the clarity and simplicity of the table. An example would look like this:

INTEREST RATE AND PAYMENT SUMMARY			
	INTRODUCTORY Rate & Monthly Payment (for first 5 years)	**MAXIMUM during FIRST FIVE YEARS** (beginning in the 61st month)	**MAXIMUM EVER** (as early as the 121st month)
Interest Rate	4.55%	6.25%	18%
Principal + Interest Payment	$450	$600	$1800
[Estimated Taxes + Insurance (escrow)] •[Includes [Private] Mortgage Insurance]	$0	$0	$0
TOTAL ESTIMATED MONTHLY PAYMENT (without optional products)	**$450**	**$600**	**$1800**
TOTAL ESTIMATED MONTHLY PAYMENT *(with optional products)*	***$470***	***$620***	***$1820***

Revising the table in this way would also provide a helpful comparison for the consumer to see his or her monthly payment without the credit protection charge, versus a payment with the credit protection charge. This will help the consumer make a more informed decision when purchasing an optional credit protection product.

We would suggest that this added disclosure be optional for the creditor. This is because there are several different types of optional credit protection products and different ways of charging, disclosing and collecting the premiums or fees. For example, the creditor may bill the premium monthly outside of the loan itself; in such a case, the additional row would be inapplicable. Other creditors may have already chosen to simply disclose the monthly payment on the credit protection contract documents in light of the new rules.

Based on the above, we respectfully request that the Board revise the rules to permit creditors, at their option, to include a row disclosing a payment that includes optional credit protection premiums and fees.

CONCLUSION

We ask that the "Maximum 5 Years" column be replaced with a "First Adjustment" column for simplicity and clarity.

We also ask that the discounted Introductory Rate box language be revised to accommodate programs in which the rate increases to the Index in effect at the time the discount period ends, rather than the rate at consummation. This would be more accurate and typical of how the programs work in the industry.

Finally, we ask that creditors have the option to add a row to the bottom of the Table to disclose monthly payments that include premiums and fees for optional credit protection products.

Thank you for your consideration.

Sincerely,

/s/

Catherine Klimek
Counsel
Securian Financial Group